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AN ELECTRIC SYSTEM SERVING THE HEART OF CALIFORNIA

September 23, 1999
F&C 99-152

Mr. Lester Snow
CALFED Bay-Delta Program
1416 Ninth Street, Suite 1155
Sacramento, CA 95814

Subject: **CALFED Bay-Delta Program Draft Programmatic Environmental Impact Statement / Environmental Impact Report June 1999**

Dear Mr. Snow:

The Sacramento Municipal Utility District (SMUD) is the largest Central Valley Project (CVP) Preference Power Customer, providing not only payments into the Restoration Fund, but repayment of the CVP plant-in-service and Operations and Maintenance costs allocated to power. We have a major financial interest in the prudent management of CVP facilities. SMUD has significant concerns regarding the policies and programs under development by CALFED to modify the operations, management and physical facilities of the CVP. To this end, SMUD submits the following comments on the CALFED Draft Programmatic Environmental Impact Statement/ Environmental Impact Report, June 1999 (PEIS/EIR).

The revised draft PEIS/EIR adequately reflects some comments made previously by SMUD. It does not, however, go into the detail requested in our previous letter. We reiterate that the CALFED proposal will impact CVP power generation. The impacts upon CVP Preference Customers will be long term, significant, and impair the operations of the Western Area Power Administration (Western).

The issues that concern SMUD are discussed below:

Impacts to CVP Power Resources

* **The amount of CVP hydroelectric energy available for sale will decrease substantially in nearly all CALFED scenarios.** The greatest impacts to CVP operation and power sales involve those scenarios that include water storage facilities and/or the isolated conveyance facility. Proposed storage facilities and associated pumping costs are "generic" in nature. No information is provided regarding the storage and pumping load assumptions. The explanation is not adequate to make a valid impact evaluation. *Please elaborate in detail in the Final PEIS/EIR.*

* **The PEIS/EIR assigns impacts either entirely to the CVP or entirely to the State Water Project (SWP), while the impact analysis for Preference Power Customers is largely ignored.** We concur that these scenarios are the extreme ends of the spectrum and will never occur. However, SMUD objects to such severe adverse impacts to CVP

power production being evaluated in this document. *Please remove these extreme scenarios in the Final PEIS/EIR because they are unreasonable, infeasible, and avoid proper discussion of real-world possibilities.*

To understand the impacts to the capacity, generation, pumping energy and energy available for sale that will result upon implementation of CALFED, a variety of potential project allocations showing some real-world options are appropriate and necessary. This approach, however, was not taken. The document states that program alternatives will be discussed in subsequent environmental documentation. In its previous comments, SMUD suggested that a range of scenarios should be developed to show the power production impacts of each alternative from implementation of CALFED programs. Any scenario, even a "50-50 CVP-SWP" operation scenario, would be preferable to having no scenario to review.

* The **average annual energy impact** (a reduction of 1,235 GWh **for the preferred alternative** translates to **a reduction of *one-third*** of the energy available under existing conditions (3,695 GWh). In **Alternative 3** (including the peripheral canal), the **worst case reduction in energy is 1,671 GWh, *almost half* of the marketable resource** shown under existing conditions.

* **The information provided regarding the impacts associated with new storage and conveyance facilities is inadequate**. The primary impacts to power result from increased pumping energy consumed at proposed new water storage and conveyance facilities. The reader is not told where these facilities are to be located, their potential costs, their primary beneficiaries, or how the cost of such facilities will be recovered. The document lacks any meaningful appraisal or feasibility analysis of the costs and benefits of such new projects.

New pumping and storage facilities would have huge adverse impacts to power sales to Preference Power Customers and would, therefore, threaten the repayment capability of the CVP. A large part of the CVP repayment to the U.S. Treasury of the cost of construction of the CVP comes from Preference Power sales. New legislation and appropriations will be required to integrate CALFED into the CVP. The real question is whether inclusion of such features in an environmental document is appropriate prior to securing Congressional authorization.

* **Other related comments:** Section 7.9.2, Areas of Controversy adequately summarizes the impacts of CALFED upon the CVP and SWP. However, it does not adequately address the severity of impacts to CVP Preference Power Customers, nor does it begin to address the long-term financial implications of the wholesale modification of CVP operations and the impacts to all CVP customers. It is stated: "The Program has no specific objectives for hydropower generation. However, the Program does seek to minimize negative effects on resources, such as hydropower generation, during and after implementation." We do not see this reflected in the text of the PEIS/EIR.

In Section 7.9.4, page 7.9-7, states "power plants, which may be modified, were identified..." Please identify which power plants were included in your assumptions.

Operational changes to CVP

Implementation of CALFED will require reoperation of the CVP. Reoperation will affect the timing of energy generation, peak project capabilities, annual energy production, and the distribution of energy on a seasonal, monthly, and daily basis.

* **The water model utilized is inadequate to analyze power production impacts.** An integral part of the CALFED process is the development of accurate information to determine impacts. Since DWRSIM is based upon monthly averages, it cannot forecast energy output and power values. As stated in our previous comments, the water modeling does not provide the data needed for an adequate power production analysis. The scope of operational changes resulting from CALFED is unclear. Not enough information is presented to determine what changes in revenues from power sales and power costs to CVP Power Customers like SMUD would result from the implementation of any of the CALFED alternatives.

In order to develop an adequate power production model, the following items need to be addressed for each alternative:

- Determine the timing of water releases from power production reservoirs,
- Determine the quantities of water to be released,
- Conduct an evaluation of how these flows will impact potential generation,
- Determine how the CVP power production will be affected and total amounts of power that will be available for sale for preference power customers, and
- Determine the impacts of energy consumed by storage and conveyance facilities and the percentage of such consumption that would be supplied from CVP generation.

* **More detail is needed regarding the specific operational changes under consideration.** Page 7.9-22 states: "A wide range of CVP and SWP operational changes currently are being assessed during the Program's study." Please provide the details of what operational changes to what streams are being studied. As stated in "Effects at Other Hydroelectric Facilities: "the Preferred Program Alternative would change flows instream below CVP and SWP facilities." This is a minor statement with far reaching implications. SMUD again requests the valid scientific reasoning behind the amount and timing of water releases proposed in the CALFED operation scenarios. These are examples of the serious impacts to hydro systems merely mentioned in the text of the document, which are not accompanied with any supporting analysis. The Draft PEIS/EIR is inadequate and flawed unless and until these deficiencies are resolved.

Impacts upon CVP Rates

*** The rate analysis is understated; increased rates could render Western power unmarketable.** A hypothetical rate analysis was conducted in the PEIS/EIR. The impacts on rates are shown as hypothetical increases that could raise Western's composite rate above the market price for power. The market price is estimated at $34/MWh in the year 2020 (1998 dollars). This has numerous implications to the future of the CVP and Western, only some of which are mentioned in the document. Rate increases will occur due to changed river operations, increased pumping loads and increased mitigation costs assigned to CVP Preference Power Customers. The initial result, as stated in the document, would be to drive customers away. If Western's rates are pushed above what the existing energy market is, customers will buy elsewhere resulting in an inability to repay CVP capital. This is a serious impact and is not addressed in the PEIS/EIR. Additionally, increasing rates will decrease the power customer's ability to compete in the restructured utility industry competitive environment. It is in the best interest of all parties to assure that Western remains viable and continues to market federally generated power. The PEIS/EIR continues to avoid the discussion of the impacts of these serious rate increases upon the Preference Power Customers.

Assumptions are made that replacement power will be purchased from the open market. These are untested assumptions. There is little clarification of where this power will come from, how it will be generated, and where additional generation will be built. These matters should be thoroughly addressed in the Final PEIS/EIR.

CALFED does not recognize that rate impacts, being economic in nature, require mitigation. The CALFED philosophy states there will be no "redirected impacts" and "the beneficiary pays." For the CVP Preference Power Customers, this will require a commitment to mitigate directly for rate impacts. CALFED must commit to this mitigation to the CVP Stakeholder group.

CALFED policy requires that beneficiaries of CALFED Program actions will have to reimburse for lost power or pay to construct replacement generation. We concur with the philosophy of this approach and would like to see CALFED adopt this as a policy for generation losses in the Final PEIS/EIR.

CALFED Financing / Program Cost Allocations

*** It is not possible to determine the full impact of the alternatives because project funding is not addressed.** As a Preference Power Customer of the CVP, SMUD has been paying its equitable share of Central Valley Project Improvement Act (CVPIA) Restoration Fund costs. The CVPIA is a separate program with specific objectives and prearranged payment obligations established by Congress. The Restoration Fund is financed partially by the CVP Preference Power Customers and is intended for the mitigation of CVP and its impacts. Use of the Restoration Fund by other entities for non-CVP purposes is not allowed.

The CALFED program should not anticipate that CVPIA money will be redirected to CALFED or that CVP Preference Power Customers are able to pay beyond current Restoration Fund costs. Allocating additional Program costs to CVP Preference Power Customers would exacerbate anticipated rate impacts, and make it more difficult for CVP Preference Customers to repay the Treasury.

Future funding of CALFED is not discussed in detail, nor are impacts of policy implementation. Follow-up documentation should discuss the role of Proposition 204 and other funding resources.

A final finance plan for CALFED is scheduled for completion at the time of the Record of Decision in June 2000. Since all funding sources are not identified, impacts in regard to the financing of CALFED cannot be properly addressed. The Final PEIS/EIR should be revised to include sufficient funding detail to enable stakeholders like SMUD to determine how we are impacted.

CALFED Program Governance

* **A representative from Western should be added to the governance board.** The governance and decision-making structure proposed to implement CALFED actions is designed to assure CALFED programs will be successful. SMUD proposes that Western be granted a seat on the governance board. The PEIS/EIR states: "The Program is coordinating with Western to ensure that issues are identified and properly framed, so that consequences and options are clear to stakeholders, the public, and Program decision-makers." As a member of the governance board, Western would have important input to decisions affecting hydropower generation, Program cost, equity and impacts on CVP operations. Since CALFED has not taken the initiative to analyze program impacts, Western would be the go-between to address impacts to its customers in a more forthright manner.

Cumulative Impacts

* **The treatment of power production impacts is vague and unsupported.** Cumulative impacts are described in Chapter 3 in a very vague manner. In Table 3-1, Power Production and Energy section, states: "Other Program elements may affect power production and energy, but would not significantly affect CVP or SWP hydroelectric generation capacity, power production economics or energy generation." This is an unsupported statement with no reference to the text in the document. This needs to be elaborated and clarified in detail in the Final EIS/EIR with references and examples of how other Program elements will affect power generation and how they will be mitigated.

In Table 7.9-1, except as part of the No Action Alternative, no attempt is made to quantify power impacts from all projects that could affect power. In Table 7.9-1, the differences in power generation between existing conditions and the No Action Alternative do not appear to accurately portray the impacts of the actions listed in Section 2.2 and Attachment A, including CVPIA flows and anticipated Trinity River flow

increases due to the Flow Study. The numbers in Table 7.9-1, appear to understate the difference between existing conditions and No Action (i.e., the change is likely to be larger than predicted in this PEIS/EIR). This needs to be revised in the Final EIS/EIR or the document will be flawed.

* **No attention is paid to future operation of the Trinity River Unit.** The PEIS/EIR omits a detailed discussion of impacts to the CVP concerning the future operation of the Trinity River Diversion and how the reoperation of the Trinity River Unit will impact the proposed CALFED alternatives. The CALFED analysis assumes that 340,000 AF per year will meet all Trinity River instream flow needs. However, the upcoming Trinity River Restoration EIS will most likely assume a higher amount of flow to be returned back into the Trinity River. This assumption is not addressed in the PEIS/EIR and will have major implications to all parties. The latest model runs from CVPIA were not available for inclusion into the PEIS/EIR, but they are available for inclusion in the Final PEIS/EIR. Please revise the document to reflect potential future Trinity River operation scenarios.

In Table 7.9.4, Summary of Power production and Energy impacts of Related Actions, reference is made to projects on the American River, which may affect "available capacity and generation at the Nimbus and Folsom power plants on the American River ....". Is this program proposing projects in the American River? If so, discussions with existing hydropower operators in the American River basin, including SMUD, should commence immediately. *Please respond in detail to SMUD in a separate letter regarding what river basins are under consideration for future new or expanded water storage facilities.*

Mitigation Strategies

* **Mitigation measures to reduce adverse impacts to power generation are not included.** The PEIS/EIR states the CALFED Program has no specific objectives for hydropower generation. However, the Program does seek to minimize impacts on hydropower generation, during and after CALFED implementation. The Program also seeks to minimize redirected impacts and to maintain linkage between the beneficiaries of actions and the costs of those actions.

Given this direction, mitigation measures to reduce adverse impacts to power generation should be part of the text of the document. Within the constraints of other power project purposes, the timing of water releases, CVP reservoir storage and afterbay operation should continue to be used to optimize the amount and timing of CVP hydropower generation so as to provide optimal power benefits where possible.

SMUD supports mitigation that will positively influence the ability of Western to continue to sell power at reasonable rates to the CVP Preference Power customers.

Increases in CVP energy use costs should be covered by revenue from CVP water users, natural resource agencies, and other environmental beneficiaries. Additional pumping costs should be assigned to the beneficiaries of the pumping.

Other Issues

* **CALFED should develop a detailed cost estimate and a cost-benefit analysis of each alternative.** The cost of each alternative will be a major factor in determining CALFED's actions. However, a more important factor should be the ability of the preferred alternative to meet the program objectives. Costs should be distributed equitably among the beneficiaries in proportion to the benefits received. Improvement to the environment benefits the general public and should be funded by the general public.

By increasing water supplies to meet downstream water obligations, timing and duration of power generation will be affected. While it is possible to generate replacement power utilizing environmentally clean sources, higher production costs would occur. Again such costs should not be born by CVP Preference Power Customers but those beneficiaries of CALFED actions.

Conclusion

Despite the volumes of CALFED documents, there is a disturbing lack of detail on key issues. CALFED does not adequately evaluate impacts to power. SMUD's input and requests made in regard to the earlier Draft EIS/EIR were ignored. If the scenarios presented in this document come to fruition, serious impacts will be imposed upon the CVP Preference Power Customers and Western. It does not appear that any more detail will be made available to the CVP Preference Power Customers to evaluate impacts to the CVP and to adequately plan for replacement power in the future. Very sparse information is presented to respond generally to CALFED's comprehensive plan or specifically to the Draft PEIS/EIR.

SMUD concurs with the philosophy that CALFED solution principles must: reduce conflicts in the system, be equitable to all, be affordable, be long lasting, be implementable, and have no significant redirected impacts. Any new CALFED use of the CVP should be paid for by new generation or by the beneficiaries of the facilities at the current market rates and not by depleting existing CVP resources.

CALFED's Final EIS/EIR should demonstrate responsiveness to the stakeholder comments by including the type of revisions requested herein so that it will become a legally sufficient document. The concerns of CVP Preference Power Customers need to be addressed. To ensure this occurs, meeting between this customer group and CALFED is hereby requested to initiate some honest discussion; this dialogue should continue throughout the entire life of CALFED.

We look forward to continuing our efforts with CALFED to develop reasonable as well as equitable administrative solutions. If you have any comments or questions, please contact me at 916/732-5716.

Sincerely,

Paul Olmstead

Paul Olmstead
Water and power Resources Specialist

cc:

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